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SUBJECT: INPUT FOR AGOA ELIGIBILITY REVIEW OF SOUTH AFRICA

REF: (A) STATE 168472, (B) Pretoria 695

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Internet Distribution.

Summary and Recommendation

[1](#)1. (SBU) South Africa has continued to make progress in establishing a market-based economy, respecting the rule of law, implementing policies to reduce poverty, and combating corruption. There is a strong case to be made that South Africa is meeting the eligibility requirements of the African Growth and Opportunity Act (AGOA). South Africa hosted two of the six rounds of free trade agreement negotiations between the Southern African Customs Union and the United States aimed at eliminating barriers to trade and investment. SACU's seeming low level of ambition, however, has made it difficult to move forward on the negotiations. While we do have concerns about how the FTA negotiations are proceeding, at this point Post concludes that South Africa continues to comply with the eligibility requirements of the African Growth and Opportunity Act (AGOA) and recommends its selection for continuing eligibility.

[1](#)2. (SBU) In deliberating on whether or not to recommend South Africa for continued eligibility, we considered the course of the Free Trade Agreement (FTA) negotiations with the Southern African Customs Union (SACU). We concluded that, despite the slow progress and some concerns about negotiating tactics, South Africa's active participation in the FTA talks are a sign of making continual progress in establishing the elimination of barriers to U.S. trade and investment. Being difficult at the negotiating table is nothing new in trade negotiations. Moreover, given that the WTO talks took nearly three years to achieve a framework for negotiations on the Doha Development Agenda, it is not surprising that the FTA talks have also taken time. There are many legitimate reasons for the slow pace of the U.S.-SACU FTA talks, including the learning curve for SACU negotiators, logistics, and the competing demands for participation in other negotiations (e.g., WTO, SADC, EFTA, EU, Mercosur). One could even argue that given the strains on SACU's negotiating capacity (four developing countries and one Least Developed Country), we have actually accomplished a lot in one year. Moving the FTA talks forward is now a question of renewed commitment and vigor. South Africa's continuing engagement with the United States, as exemplified by the July talks in Paris, as well as various telephone conversations by our senior trade officials, demonstrates South Africa's continued good faith in this bilateral effort to remove trade barriers. Finally, concluding an FTA is not a condition for AGOA eligibility.

A Market-Based Economy

[1](#)3. (U) South Africa is making continual progress in establishing a market-based economy. One example of its commitment to an open rules-based trading system was the government's publication of proposed new countervailing duty and safeguards rules in 2004. While the government continues to own significant stakes in various sectors of the economy and progress towards privatization has been slow, the government has made renewed pledges to move forward with restructuring. Due to elections in April 2004, all work on privatizations came to a halt. Since then, the new Minister of Public Enterprises, Alec Erwin has received clear direction from the President to pursue restructuring rapidly and promised major new policy initiatives by December 2004 including a plan to concession Durban's container port and move toward concessioning other ports. Transnet (the state transportation firm) has recently decided to focus only on ports, freight rail lines and its petrol pipeline, divesting all passenger rail traffic, road freight, and its other businesses. The new CEO has emphasized that she is considering the possibility of public-

private partnerships even in its core business (she had been Director General at National Treasury and was a strong supporter of National Treasury's work on public-private partnerships). Government is expected to sell off additional shares in Telkom, plus the US/Malaysian partners are expected to reduce their shares by selling to a SA black empowerment partner. The new Minister of Trade and Industry, Mandisi Mphahlele, initiated a Forum on trade so the views of labor and business can have a direct impact on negotiations.

14. (SBU) The U.S. Trade Representative, Ambassador Zoellick, met with South Africa's Trade Minister in Cape Town in February 2004 to discuss the way forward after the Doha Development Agenda had stalled in Cancun. South Africa commended Ambassador Zoellick's initiative to reinvigorate the talks and worked constructively to advance the process, culminating in the successful July/August 2004 multilateral WTO meeting in Geneva on a framework for negotiations. South Africa, like other AGOA eligible countries, will likely continue to champion the interests of developing countries in the global trade talks and criticize U.S. agricultural policies, particularly farm subsidies.

15. (U) In the past year, South Africa continued to succeed in achieving sound macroeconomic objectives. Thus far in 2004 growth has accelerated to 3.9% and is broad-based. This is the best that SA has done in the last five years. However, researchers estimate the country needs a minimum of 4.0% growth rate for a decade to halve unemployment (that is, reach the 15% target). Inflation has come down steadily. In March 2003, the CPIX inflation rate was 9.3% but decreased to 6.3% in September 2003, which is just over the central bank's target range of 3-6%. In 2004 headline inflation (CPI) has hovered between 0-1%, with CPIX being around 4.5%. The rand continued to strengthen in 2004 from a rate of R10.57/\$1 in September 2002 to R7/\$1 in September 2003, and to approximately R6.5/\$1 in August 2004. The stronger rand has helped to reduce the inflation rate. Central Bank action to cut the domestic interest rate contributed to the depreciation of the rand from its peak of R5.85 during the year to R6.60 in September 2004. The prime interest rate has also come down. Years of fiscal discipline by the SAG are making it possible for the government to reduce the interest costs of national debt, lower marginal tax rates and increase government expenditures on social programs and capital expenditures.

Rule of Law, Political Pluralism, and Due Process

16. (U) South Africa respects the rule of law but inadequate resources and training results in uneven implementation. Violent crime is high and there are strains on the judicial system. South Africa held free and fair elections in April 2004 in which the ruling African National Congress (ANC) won nearly 70% of the vote. The Cabinet includes 26 ministers from the ANC, one from the Azanian People's Organization (AZAPO), and one from the New National Party (NNP). Seats in the Parliament's National Assembly are allocated based on the percentage of votes each party receives. In the 2004 elections, the ANC won 279 of the 400 seats in the Assembly. The official opposition party, the Democratic Alliance, won 50 seats, the Inkatha Freedom Party 28, the NNP 7, and the United Democratic Movement 9. Several small parties won the remaining 27 seats.

17. (U) The constitution's bill of rights provides for due process including the right to a fair, public trial within a reasonable time of being charged and the right to appeal to a higher court. All branches of government generally respect the right to due process.

Elimination of Barriers to U.S. Trade

18. (SBU) As a member of the Southern African Customs Union (SACU), South Africa participated in six rounds of negotiations for a Free Trade Agreement (FTA) with the United States from June 2003 to June 2004, hosting the first two rounds in South Africa. The first year of the talks informed both sides of their respective positions on issues but did not lead to any breakthroughs. The seventh round of negotiations scheduled for August 2004 was postponed at SACU's request. The talks have served to clarify to U.S. negotiators where there are barriers and where there are not barriers. A successful FTA provides the best prospect of eliminating barriers to U.S. trade and investment.

Economic Policies To Reduce Poverty

19. (U) Finance Minister Trevor Manuel announced the new budget on February 18, 2004, which will increase spending on

social programs such as HIV/AIDS programs, education, and "pro-poor social services spending." The 2004 budget provides for a marked acceleration in spending on basic social services, education, pension and disability grants, child support grants, HIV/AIDS, investment in infrastructure, and support for local development.

10. (U) President Mbeki has made the reduction in poverty and unemployment cornerstones to his second term program. Government has introduced programs for free basic water and electricity for all, and is expanding its housing program. Government has expanded its social welfare grants program to increase the number of children eligible for the child grant, and also increased the amount going to Support Old Age Pensioners (SOAP) and disability grants. Further, the Department of Social Development has loosened the eligibility requirements for the disability grants, which make it easier for unemployed people to access the funds. The major new jobs initiative has been the Expanded Public Works Program, which is not all that dissimilar to the U.S. depression era Works Progress Administration. The target is one million new jobs. All provinces have to have their programs up and running by the end of September. Government has also initiated a number of analytical pieces to better understand the dimensions of poverty, the poverty gap, and to establish a poverty line so as to be able to monitor success.

A system to combat corruption

11. (U) Despite being rocked by a Parliamentary travel scandal and the resignation of the Director of Public Prosecutions, who was widely perceived as having been forced out due to his investigation of the Deputy President for corrupt activities, the government actually made significant progress in the fight against graft in 2004. Most significantly, Parliament in April passed the Prevention and Combating of Corrupt Activities Act, a law that for the first time clearly defines the scope of corrupt activities and otherwise complements several other existing anticorruption laws. Government anticorruption entities also made headway in 2004 in expanding their operations and working toward greater interagency cooperation.

12. (U) Nonetheless, there is still a widespread view that corruption is prevalent within government, particularly in the police, the Department of Home Affairs, and the Department of Transport. Although South Africa's anticorruption regulatory framework is excellent, the enforcement of anticorruption laws and the creation of a corruption-free corporate culture within government must occur to overcome this perception.

Protection of worker rights

13. (U) The South African Department of Labor (SADOL) completed work on its Child Labor Action Program (CLAP). SADOL is now in the process of both costing out the various action items, after which the program will be presented to the Cabinet, and of putting together the priority recommendations for immediate implementation. Due to the growing number of AIDS orphans, the problem of child labor has increased, particularly in the areas of commercial agriculture and street vending. Sexual exploitation of children is also increasing. The text in last year's report regarding labor, child labor and human rights remains accurate.

14. In light of the above developments, Post recommends South Africa's continued eligibility for AGOA.
FRAZER